

Press Release



Chhattisgarh East Railway Limited

04 July, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 2443.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 2443.00 Cr. bank facilities of Chhattisgarh East Railway Limited (CERL). The outlook is '**Stable**'.

Incorporated in 2013, Chhattisgarh East Railway Limited is a Special Purpose Vehicle (SPV) promoted jointly by South Eastern Coalfields Limited (SECL), Ircon International Limited (IRCON) and Government of Chhattisgarh (GoCG) holding 67.5 percent, 27.5 percent and 5.0 percent stake respectively. The stake of GoCG, however is indirectly held through Chhattisgarh State Industrial Development Corporation Limited (CSIDCL).

CERL has been established with the specific purpose of setting up an East Rail Corridor from Kharsia to Dharamjaygarh in the state of Chhattisgarh with a total length covering approximately 180 Kms. The East rail corridor will facilitate the expansion of coal excavation activities of SECL to meet the planned target of Coal India Limited to produce 1 billion tonne of coal by FY 2020. The total cost of the project is estimated at Rs.3054 Cr. and is to be funded in the debt to equity ratio of 80:20 by way of debt of Rs.2443 Cr. and equity of Rs.611.24 Cr.

Key Rating Drivers

Strengths

Strong Parentage

CERL was established in 2013 by SECL, Ircon and GoCG for developing the East Railway Corridor and enhance the coal production of SECL. The board of CERL has 3 nominees from SECL and 2 nominees from Ircon and 1 nominee from GOCC.

The promoters of CERL have strong execution capability to implement the project. SECL, the primary sponsor is the largest coal producing company of India and part of Coal India Group (CIL). The company has 92 mines spread over Chhattisgarh & Madhya Pradesh including 70 underground, 21 opencast, and 1 mixed mine. SECL accounts for ~ 25 per cent of the total production of Coal India Limited (CIL) and has produced 140 MT of coal during FY 2016-17.

IRCON (formerly Indian Railway Construction Company Limited) responsible for the implementation of the project, is an engineering and construction company, specialized in transport infrastructure. The public sector undertaking was established in 1976, by the Government of India and is a wholly owned entity of the Ministry of Railways. Ircon has completed over 1250 major infrastructure projects in India and over 200 major projects across the world in more than 31 countries. The rating derives comfort from the strong parentage of CERL, the significant experience of such promoters in project execution, their high financial strength and also their sovereign ownership. Acuite believes that such promoter linkages and execution capabilities will offset the project risks to a considerable extent in CERL.

Strategic importance of East Railway Corridor to sponsors

The project is strategically important for the growth of coal production and better logistical efficiencies in SECL. The corridor will primarily carry originating traffic from the mines in the Mand Raigarh coalfields where SECL has 23 own mines of which 4 mines are currently in operation. Presently, the 4 mines have 9.50 MT of production capacity which are largely sold through e-auction and evacuated by road. Going forward, SECL owned mines in the Mand-Raigarh coalfields are expected to contribute to about 63 MTPA freight traffic on the East Corridor at peak production.

Given the steady rise in domestic coal production, evacuation of coal from mines and an environment friendly transportation to consumption units will become a major challenge. In this regard, CERL will play a major role in timely evacuation and efficient transport of coal.

Further, the strategic importance of the project to the Railways is also evident from the concession agreement for a period of 30 years in place where MoR shall pay CERL 50 per cent of the revenue earned from freight operations. MoR has also approved inflated mileage at the rate of 60 percent for the first five years of operation where CERL shall receive additional revenue equivalent to freight charges corresponding to 60 per cent of the distance travelled by the coal cargo.

Substantial progress in the on-going project

The project was started from April'2014 and since inception it has been accorded very high priority and its progress is being closely monitored by the MoR. It is a strategic project which will provide key rail infrastructure for enabling coal movement and hence increase in coal production in the region and alleviate the coal shortage in the country. The total project cost is estimated at Rs 3,054 Cr. of which ~ Rs 1,200 Cr. is incurred till May 2018. The financial closure has already been achieved with the term loan of Rs. 2,443 Cr. having been sanctioned by the consortium of bankers led by Indian Bank. Though only 40 percent of the project has been completed, the critical aspects such as acquisition of land including forest land and earth work have been concluded. Further, tenders for laying of tracks and ballast has been awarded and bridge construction is already in progress. Given that the entity has made substantial progress in the development of the East Railway corridor, Acuite expects no significant delay in its completion from the scheduled timeline of October 2019.

Weaknesses

Risk of reduction in traffic volume

The projected traffic volumes may ramp up slowly if the mining plans of the adjoining mines owned by SECL get delayed. SECL has 23 mines in the Mand Raigarh coalfields in close proximity to the railway line which are expected to contribute 63 MTPA traffic to east corridor. Four of these mines are already operational and the others are in advanced stage of development. However, Acuite derives comfort from the other operational mines in the vicinity which has been awarded to different players having a capacity of ~ 40 MTPA.

Insufficient availability of rakes can hinder traffic movement on the corridor

Rakes will be provided by the MoR on a best effort basis and therefore any inadequate availability of such wagons can impact traffic volumes and CERL's revenues. Given that this rail line is one of the crucial links in achieving Government of India (GoI) goal of increasing coal production and meeting the growing requirement of thermal power plants in the country, it is expected that the sufficient rakes will be made available for this rail system. Power plants may also consider buying their own rakes to ply on this rail line so as to ensure uninterrupted coal supply to their projects.

Outlook: Stable

Acuite believes that the outlook on CERL will remain stable over the medium term backed by its strong parentage and the project's strategic importance to the sponsors. The outlook may be revised to 'Positive' in case of its ability to commence operation on time and achieve the traffic volumes and revenues as projected. The outlook may be revised to 'Negative' in case of any significant time and cost overruns in the project thus delaying the revenue generation and cash flow generation.

Analytical Approach: ACUITE has considered the standalone business and financial risk profiles of CERL to arrive at the rating.

About the Rated Entity - Key Financials

Not Applicable

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infra Entities - <https://www.acuite.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	2443.00	ACUITE A-/ Stable (Assigned)

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About Acuité Ratings & Research:

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